

**REPORT TO THE
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMISSION**

**FOR THE QUARTER
OCTOBER 1, 2001 TO DECEMBER 31, 2001**



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January 7, 2002

The Honorable Vincent F. Callahan, Jr., Chairman
and
Members, Joint Legislative Audit and Review Commission
General Assembly Building
Capitol Square
Richmond, Virginia 23219

This transmits our quarterly summary of reports issued for the period October 1, 2001 through December 31, 2001.

The *Executive Summary* includes reports that may be of special interest to the members of the Commission. We have included a report in the summary for the sole purpose of bringing to your attention matters of significance. These summaries do not include all findings within a report or all reports with findings.

The *Summary of Reports Issued* lists all reports released during the quarter and shows reports that have audit findings.

We will be happy to provide you, at your request, any reports in their entirety. We welcome any comments concerning this report or its contents.

Sincerely,

Walter J. Kucharski
Auditor of Public Accounts

WJK:aom

EXECUTIVE SUMMARY

A REVIEW OF INDEPENDENT FINANCIAL SYSTEMS

November 2001

We evaluated the reasons state agencies and institutions of higher education purchase independent financial systems apart from the Commonwealth Accounting and Reporting System (CARS), the success of the systems implementation, and the efficiency of the implementation approach used throughout the Commonwealth. In addition, we examined the Secretary of Technology's and the State Comptroller's responsibilities in establishing system implementation standards and guidelines.

Recommendation:

We recommend that the Secretary of Technology establish a baseline set of information systems development standards and best practices for state agencies and institutions of higher education.

This recommendation is based on the following findings:

- No standards and best practices exist for systems development projects.
- The Department of Technology Planning appoints oversight committees for projects costing more than one million dollars. However, these committees evaluate development projects based on their best judgment, not formal standards.
- A consistent method of accumulating costs for systems implementation projects does not exist.
- Lack of standards and best practices result in modifications to software that increase implementation complexity, often resulting in the termination of the systems development project.

Our review of independent financial systems found the following:

- Agencies and institutions develop independent systems because they require encumbrance accounting, detailed revenue/receivable management, and analysis of real-time and historical data, which is not available in CARS.
- Agencies and institutions have spent or have budgeted to spend in excess of \$556 million dollars to replace or implement new financial systems within the past five years.
- Software expenses are one of the smallest of all implementation cost components, with consulting, networking, and hardware representing the majority of the expenses.
- PeopleSoft and Oracle have been the predominant software vendors used by agencies; however, institutions use many different software vendors.

MAINTENANCE RESERVE STUDY REVIEW

December 2001

We have reviewed the status of maintenance performed by state agencies and higher education institutions over the Commonwealth's buildings and determined the extent of maintenance being performed, the effectiveness of the maintenance, and the impact it has on the buildings. In addition, we have reviewed whether the major state agencies and higher education institutions have a reliable mechanism in place for determining their maintenance backlog.

We have determined that many agencies and institutions do not have preventive maintenance schedules. Some agencies and institutions have schedules, but the schedules are incomplete. We found that most agencies and institutions could not reasonably or accurately determine the extent of their deferred maintenance backlog and that most had no methodology in place to allow them to do so. We believe that the Facility Condition Reporting Guidelines set out by the State Council on Higher Education for Virginia (SCHEV) for the higher education institutions is effective and would be beneficial if applied to all state agencies and institutions.

Our recommendations include:

- The General Assembly may wish to require each agency and higher education institution that has at least one building to perform a comprehensive review and determine the dollar amount of its deferred maintenance backlog.
- The General Assembly may wish to adopt a routine, quantifiable method for assessing the condition of the facilities in the Commonwealth. The General Assembly should consider adapting the SCHEV facility condition assessment process for all state agencies and institutions.
- The General Assembly and the Department of Planning and Budget should consider instituting a full life cycle analysis for each new capital project. The life cycle cost analysis includes annual operations and maintenance needs, projected maintenance reserve requirements by fiscal year, and a projected effective life for the asset. When the General Assembly commits to a new capital project under the full life cycle analysis process, it will commit to providing the maintenance funding for the life of the facility.
- The Department of Planning and Budget should require agencies and institutions to include preventive maintenance budgets in their operating budget proposals each year/biennium for each facility they own. The General Assembly should request and track deferred maintenance amounts as part of the budget process.
- The General Assembly may wish to create the capacity within the Department of General Services for the Department to develop routine building preventive maintenance schedules for distribution to agencies.

REPORT ON TAX RETURN ERROR RESOLUTION ANALYSIS

Department of Taxation

December 2001

The Department of Taxation introduced several changes in the processing of tax returns for Tax Year 2000, which they believe would improve efficiency and expedite processing. These changes included a redesigned tax form and several new ways for taxpayers to file their returns. Taxation hoped these changes and the variety of filing options would be less confusing to taxpayers.

While Taxation expected these changes would improve and expedite tax return processing, Taxation also understood that these changes could cause an increase in tax return errors. However, the number and types of errors greatly exceeded Taxation's expectation and management's steps to respond to the errors.

Conclusion

Although an increase in errors will occur as a result of significant system changes or the implementation of significantly new procedures and processes, adequate planning and reacting to such changes should be part of any such undertaking. Taxation did not retest the changes from information obtained through its focus groups when redesigning its tax forms. In addition, Taxation's timeframe did not allow tax software developers adequate time to incorporate changes into their software.

Although the significant increase in tax return errors occurred as early as March, Taxation did not provide sufficient human and computer resources to resolve these errors until May 2001, thereby slowing refunds to individual taxpayers. During July and August 2001, as a result of additional human resources and computer system changes, Taxation cleared tax refund returns totaling \$132 million, which was more than the number cleared over the first six months of the filing season and approximately an \$87 million increase over July and August 1999, a normal tax year.

Taxation is in the process of implementing a multiple-year system project to revise its operations and systems. Taxation should recognize the challenges encountered for the changes made to the Tax Year 2000 filing process and incorporate these lessons in any future changes.

STATE BOARD OF ELECTION'S VIRGINIA VOTER REGISTRATION SYSTEM DEVELOPMENT PROJECT

December 2001

We reviewed the progress of the State Board of Election's Virginia Voter Registration System Development Project to determine if the board had and followed a formal project management process and if the development project management could meet the project plan's goals.

Our report includes the following recommendations:

- The project management team should establish a detailed project plan that addresses all technical requirements and documentation needs.
- The project management team should develop a complete and accurate budget that includes all anticipated costs.
- The General Assembly may wish to consider additional funding so the project may be completed within a reasonable timeframe.

Our recommendations address the following findings:

- The project management team has not developed a detailed project plan that addresses all technical requirements and documentation needs.
- The project management team has not established a comprehensive budgeting mechanism.

The project lacks adequate funding to complete the project.

SUMMARY OF REPORTS ISSUED

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The following reports on audit were released by this Office during the period October 1, 2001 through December 31, 2001. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

State Agencies and Institutions

Legislative Branch

General Assembly and Legislative Agencies and Commissions of the Commonwealth of Virginia for the fiscal year ended June 30, 2001

Executive Departments

Administration

Local Government Investment Pool for the year ended June 30, 2001
Virginia War Memorial Foundation for the year ended June 30, 2001

Commerce and Trade

Department of Minority Business Enterprises for the period May 1, 2000 through June 30, 2001*
Virginia College Building Authority for the year ended June 30, 2001
Virginia Commercial Space Flight Authority for the year ended June 30, 2001

Education

Department of Education Including Direct Aid to Public Education, The Virginia Schools for the Deaf and Blind, The Virginia Schools for the Deaf and Blind Foundation for the year ended June 30, 2001
Southwest Virginia Higher Education Center for the year ended June 30, 2001
Virginia Biotechnology Research Park Authority for the year ended June 30, 2001

Colleges and Universities

Norfolk State University, Intercollegiate Athletic Programs for the year ended June 30, 2000
University of Virginia Medical Center for the years ended June 30, 2001 and 2000
University of Virginia for the year ended June 30, 2001*
University of Virginia, Intercollegiate Athletic Programs for the year ended June 30, 2001
Virginia Polytechnic Institute and State University for the year ended June 30, 2001*
Virginia Polytechnic Institute and State University, Intercollegiate Athletic Programs
for the year ended June 30, 2001

Finance

Department of Taxation Tax Return Error Resolution Analysis Tax Year 2000, December 2001*
Revenue Stabilization Fund dated November 27, 2001

Health and Human Resources

Department of Medical Assistance Services for the year ended June 30, 2001*
Office of Comprehensive Services for At-Risk Youth and Families for the year ended
June 30, 2001

Natural Resources

Potomac River Fisheries Commission for the year ended June 30, 2001
Rappahannock River Basin Commission for the years ended June 30, 2001 and June 30, 2000

Public Safety

Department of Alcoholic Beverage Control for the year ended June 30, 2001

Technology

Innovative Technology Authority and Center for Innovative Technology for the year
ended June 30, 2001
Virginia Information Providers Network Authority for the year ended June 30, 2001*

Transportation

Motor Vehicle Dealer Board for the two-year period ended June 30, 2001

Independent Agencies

State Corporation Commission for the year ended June 30, 2001
State Lottery Department for the years ended June 30, 2000 and June 30, 2001
State Lottery Department, Report on Applying Agreed-Upon Procedures for the period
April 1, 2000 through March 31, 2001
Virginia Public Broadcasting Board for the year ended June 30, 2001
Virginia Retirement System for the year ended June 30, 2001*

Special Reports

Review of Financial Systems Implementations, November 28, 2001*
Review of Preventive and Deferred Maintenance Policies and Practices, December 2001*
State Board of Election's Virginia Voter Registration System Development Project, December 2001*
Virginia Voter Registration System dated November 15, 2001*

Clerks of the Circuit Courts

Cities:

City of Norfolk for the period October 1, 2000 through September 30, 2001
City of Radford for the period July 1, 2000 through June 30, 2001
City of Suffolk for the period July 1, 2000 through June 30, 2001
City of Winchester for the period October 1, 2000 through September 30, 2001*

Counties:

County of Amelia for the period July 1, 2000 through June 30, 2001
County of Appomattox for the period July 1, 2000 through June 30, 2001*
County of Botetourt for the period October 1, 2000 through September 30, 2001
County of Floyd for the period July 1, 2000 through June 30, 2001
County of Frederick for the period July 1, 2000 through June 30, 2001
County of Grayson for the period October 1, 2000 through September 30, 2001
County of King and Queen for the period July 1, 2000 through June 30, 2001
County of King William for the period July 1, 2000 through June 30, 2001
County of Lancaster for the period July 1, 2000 through September 30, 2001
County of Loudoun for the period January 1, 2000 through September 30, 2001

Clerks of the Circuit Courts

Counties: (cont.)

County of Mecklenburg for the period July 1, 2000 through June 30, 2001
County of Nottoway for the period July 1, 2000 through September 30, 2001
County of Patrick for the period July 1, 2000 through June 30, 2001
County of Pulaski for the period July 1, 2000 through June 30, 2001*
County of Sussex for the period July 1, 2000 through June 30, 2001*
County of York for the period October 1, 2000 through September 30, 2001

Commonwealth Revenues Collected by Constitutional Officers

Collection of Commonwealth Revenues by Local Constitutional Officers Statewide Report
for the year ended June 30, 2001*

General Receivers

Cities:

City of Alexandria for the period July 1, 2000 through June 30, 2001
City of Bristol for the year ended June 30, 2001
City of Lynchburg for the year ended June 30, 2001
City of Norfolk for the period July 1, 2000 through June 30, 2001

Counties:

County of Arlington for the year ended June 30, 2001
County of Buchanan for the year ended June 30, 2001
County of Dickenson for the year ended June 30, 2001
Counties of Essex, Lancaster, Northumberland, Richmond, and Westmoreland for the
period July 1, 2000 through June 30, 2001
County of Isle of Wight for the period July 1, 2000 through June 30, 2001
County of King George for the year ended June 30, 2001
County of Loudoun for the year ended June 30, 2001
County of Pulaski for the year ended June 30, 2001
County of Russell for the year ended June 30, 2001
County of Sussex for the year ended June 30, 2001
County of Washington for the year ended June 30, 2001
County of Wise for the year ended June 30, 2001